DAWNRAYS PHARMACEUTICAL (HOLDINGS) LIMITED

東瑞製葯(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2348)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

RESULTS HIGHLIGHTS

	For the year ended 31 December		
	2012	2011	Changes
Revenue(RMB'000)	856,539	1,081,044	-20.8%
Gross profit(RMB'000)	324,395	362,752	-10.6%
Gross profit margin (%)	37.9%	33.6%	+4.3 percentage points
Profit before tax(RMB'000)	144,641	179,187	-19.3%
Profit for the year(RMB'000)	114,506	146,307	-21.7%
Net profit margin (%)	13.4%	13.5%	-0.1 percentage point
Earnings per share attributable to ordinary equity holders of the parent-basic (RMB)	0.1432	0.1834	-21.9%
Proposed final dividend per share (HK$)	0.055	0.068	-19.1%

The board (the "Board") of the directors (the "Directors") of Dawnrays Pharmaceutical (Holdings) Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012(the "reporting period") together with the comparative amounts for 2011 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 *RMB'000*	2011 *RMB'000*
REVENUE	5	856,539	1,081,044
Cost of sales		(532,144)	(718,292)
Gross profit		324,395	362,752
Other income and gains	5	14,374	16,601
Selling and distribution expenses		(104,711)	(100,861)
Administrative expenses		(53,070)	(55,777)
Other expenses		(32,522)	(41,369)
Finance costs	6	(3,825)	(2,159)
PROFIT BEFORE TAX	7	144,641	179,187
Income tax expense	8	(30,135)	(32,880)
PROFIT FOR THE YEAR		114,506	146,307
Attributable to:			
Owners of the parent		114,506	146,307
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
- basic, for profit for the year		RMB0.1432	RMB0.1834
- diluted, for profit for the year		RMB0.1429	RMB0.1826

Details of the dividends payable and proposed for the year are disclosed in note 9 to the results announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012	2011
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	114,506	146,307
Exchange differences	324	(1,055)
OTHER COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR, NET OF TAX	324	(1,055)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	114,830	145,252
Attributable to:		
Owners of the parent	114,830	145,252

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2012

	Notes	2012 *RMB'000*	2011 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		385,782	278,323
Land use rights		44,339	45,380
Construction in progress		195,107	228,074
Intangible assets		21,821	17,604
Deferred tax assets		703	1,738
Total non-current assets		647,752	571,119
CURRENT ASSETS			
Inventories		182,918	176,010
Trade and notes receivables	11	402,922	442,989
Prepayments, deposits and other receivables		14,432	12,892
Equity investments at fair value through profit or loss		5,705	4,707
Pledged bank deposits		160,220	88,294
Cash and cash equivalents		155,694	97,805
Total current assets		921,891	822,697
CURRENT LIABILITIES			
Trade and notes payables	12	285,319	269,212
Other payables and accruals		69,825	71,054
Interest-bearing bank loans		201,751	110,458
Income tax payable		5,992	6,482
Total current liabilities		562,887	457,206
NET CURRENT ASSETS		359,004	365,491
TOTAL ASSETS LESS CURRENT LIABILITIES		1,006,756	936,610
NON-CURRENT LIABILITIES			
Government grants		2,094	1,500
Deferred tax liabilities		22,550	16,232
Total non-current liabilities		24,644	17,732
Net assets		982,112	918,878
EQUITY			
Equity attributable to owners of the parent			
Issued capital		84,838	84,707
Reserves		861,866	790,044
Proposed final dividend	9	35,408	44,127
		982,112	918,878
Non-controlling interest		-	-
Total equity		982,112	918,878

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) as issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss that have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments*: *Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures –Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	Financial Instruments[4]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) *– Investment Entities*[3]
IFRS 13	Fair Value Measurement[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[2]
IAS 27 (Revised)	Separate Financial Statements[2]
IAS 28 (Revised)	Investments in Associates and Joint Ventures[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation –Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

IFRS 9 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

The IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IAS 27 and IFRIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in IFRIC 12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or IFRIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised), IAS 28 (Revised), and the subsequent amendments to these standards issued in June and October 2012 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 13 prospectively from 1 January 2013.

The IAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

    In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(b) IAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

4. SEGMENT INFORMATION

For management purposes, the Group organises the business units based on their products.

For management purposes, the Group's business is organised into the following two reportable segments:

a) Manufacture and sale of intermediates and bulk medicines (the "intermediates and bulk medicines" segment)
b) Manufacture and sale of finished drugs (including antibiotics finished drugs and non-antibiotics finished drugs) (the "finished drugs" segment)

Management monitors the operating results of these operating segments for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, government grants, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged bank deposits, cash and cash equivalents, equity investments at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2012	Intermediates and bulk medicines *RMB'000*	Finished drugs *RMB'000*	Elimination of intersegment sales *RMB'000*	Total *RMB'000*
Segment Revenue:				
Sales to external customers	377,531	479,008	-	856,539
Intersegment sales	82,266	-	(82,266)	-
	459,797	479,008	(82,266)	856,539
Segment Results	(2,053)	221,946	-	219,893
Reconciliation:				
Unallocated gains				9,050
Corporate and other unallocated expenses				(80,477)
Finance costs				(3,825)
Profit before tax				144,641

4. SEGMENT INFORMATION (continued)

Year ended 31 December 2011	Intermediates and bulk medicines *RMB'000*	Finished drugs *RMB'000*	Elimination of intersegment sales *RMB'000*	Total *RMB'000*
Segment Revenue:				
Sales to external customers	556,829	524,215	-	1,081,044
Intersegment sales	111,824	-	(111,824)	-
	668,653	524,215	(111,824)	1,081,044
Segment Results	6,304	254,663	-	260,967
Reconciliation				
Unallocated gains				13,227
Corporate and other unallocated expenses				(92,848)
Finance costs				(2,159)
Profit before tax				179,187

As at 31 December 2012	Intermediates and bulk medicines *RMB'000*	Finished drugs *RMB'000*	Total *RMB'000*
Segment Assets:	698,089	403,287	1,101,376
Reconciliation:			
Corporate and other unallocated assets			468,267
Total assets			1,569,643
Segment Liabilities:	190,397	44,663	235,060
Reconciliation:			
Corporate and other unallocated liabilities			352,471
Total liabilities			587,531

As at 31 December 2011	Intermediates and bulk medicines *RMB'000*	Finished drugs *RMB'000*	Total *RMB'000*
Segment Assets:	643,964	390,173	1,034,137
Reconciliation:			
Corporate and other unallocated assets			359,679
Total assets			1,393,816
Segment Liabilities:	233,347	52,425	285,772
Reconciliation:			
Corporate and other unallocated liabilities			189,166
Total liabilities			474,938

4. SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2012 *RMB'000*	2011 *RMB'000*
Mainland China	755,759	904,819
India	28,996	76,834
Other countries	71,784	99,391
	856,539	1,081,044

The revenue information above is based on the locations of the customers.

(b) Non-current assets

The Group's operations are substantially based in Mainland China and almost all of the non-current assets of the Group are located in Mainland China. Therefore, no further analysis of geographical information is presented.

Information about major customers

None of the Group's customers in either year contributed over 10% of the total revenue of the Group.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

	Group	
	2012 *RMB'000*	2011 *RMB'000*
Revenue		
Sale of goods	856,539	1,081,044
Other income		
Bank interest income	4,809	3,801
Dividend income from equity investments at fair value through profit or loss	216	189
Foreign exchange differences	610	3,316
Government grants	5,785	6,788
Others	1,969	2,415
	13,389	16,509
Gains		
Gain on disposal of equity investments at fair value through profit or loss	28	92
Fair value gains, net:		
Equity investments at fair value through profit or loss	957	-
	985	92
	14,374	16,601

6. FINANCE COSTS

	Group 2012	Group 2011
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	3,825	2,159

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Group 2012	Group 2011
	RMB'000	*RMB'000*
Cost of inventories sold*	528,582	712,052
Depreciation	28,402	27,163
Recognition of land use rights **	1,041	1,041
Research and development costs:		
Amortisation of intangible assets ***	1,078	1,091
Current year expenditure	25,743	31,196
	26,821	32,287
Minimum lease payments under operating leases:		
Buildings	1,604	1,831
Auditors' remuneration	1,200	1,200
Employee benefit expense (including directors' remuneration):		
Wages and salaries	67,739	74,141
Equity-settled share option expense	1,439	3,374
Retirement benefits	6,898	7,134
Accommodation benefits	3,026	3,074
Other benefits	11,461	12,912
	90,563	100,635
Foreign exchange differences, net	(610)	(3,316)
Reversal of impairment of trade receivables	(100)	(225)
Write-down of inventories to net realisable value	3,568	4,062
Fair value (gains) / losses, net:		
Equity investments at fair value through profit or loss	(957)	1,630
Bank interest income	(4,809)	(3,801)
Loss on disposal of items of property, plant and equipment	118	473
Gain on disposal of equity investments at fair value through profit or loss	(28)	(92)

* The depreciation of RMB 20,458,000 for the year is included in "Cost of inventories sold".

** The recognition of land use rights for the year is included in "Administrative expenses" on the face of the consolidated income statement.

*** The amortisation of intangible assets for the year is included in "Other expenses" on the face of the consolidated income statement.

8. INCOME TAX

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Current income tax		
Current income tax charge	22,563	27,644
Adjustments in respect of current income tax in previous years	219	(1,734)
Deferred income tax	7,353	6,970
Total tax charge for the year	30,135	32,880

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gain or appreciation shall apply to the Company or its operations. The undertaking for the Company is for a period of 20 years from 8 October 2002. Accordingly, the Company is not subject to tax.

The subsidiary incorporated in the British Virgin Islands (the "BVI") is not subject to income tax, as this subsidiary does not have a place of business (other than a registered office only) or carry out any business in the BVI.

The Hong Kong subsidiaries are subject to a statutory corporate income tax rate of 16.5% (2011: 16.5%) under the income tax rules and regulations of Hong Kong. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in its respective Hong Kong subsidiaries during the year (2011: Nil).

According to the PRC Enterprise Income Tax Law effective from 1 January 2008, the Mainland China Subsidiaries are all subject to income tax at the rate of 25% on their respective taxable income.

On 21 October 2008, Suzhou Dawnrays Pharmaceutical Co., Ltd. ("Suzhou Dawnrays Pharmaceutical") was qualified as a High-New Technology Enterprise ("HNTE") of Jiangsu Province. As a result, Suzhou Dawnrays Pharmaceutical had been entitled to a concessionary rate of income tax at 15% for three years commencing 1 January 2008. During the year ended 31 December 2011, Suzhou Dawnrays Pharmaceutical renewed the qualification of the HNTE of Jiangsu Province. As a result, Suzhou Dawnrays Pharmaceutical is entitled to a concessionary rate of income tax at 15% for three years commencing 1 January 2011.

All other subsidiaries in Mainland China are subject to the corporate income tax rate of 25% in 2012.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

8. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the country or jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Accounting profit before income tax	144,641	179,187
At the PRC's statutory income tax rate of 25% (2011: 25%)	36,160	44,797
Tax effect of profits entitled to tax concession or lower tax rate enacted by local authority	(15,576)	(16,664)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	6,318	7,444
Adjustments in respect of current income tax of previous years	219	(1,734)
Expenses not deductible for tax	397	586
Tax credit for qualified research and development expense	(1,584)	(1,989)
Tax losses not recognised	4,589	440
Tax losses from previous periods utilised	(388)	-
At the effective income tax rate of 20.83% (2011: 18.35%)	30,135	32,880

9. DIVIDENDS

	Company	
	2012	2011
	RMB'000	*RMB'000*
Interim - HK$0.015 (2011: HK$0.020) per ordinary share	9,771	13,070
Proposed final – HK$0.055 (2011: HK$0.068) per ordinary share	35,408	44,127
	45,179	57,197

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 799,609,530 (2011: 797,935,616) in issue during the year.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2012 *RMB'000*	2011 *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	114,506	146,307

	Number of shares	
	2012 Thousands	2011 Thousands
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	799,610	797,936
Effect of dilution – weighted average number of ordinary shares:		
Share options	1,489	3,163
Weighted average number of ordinary shares adjusted for the effect of dilution	801,099	801,099

11. TRADE AND NOTES RECEIVABLES

	Group	
	2012 *RMB'000*	2011 *RMB'000*
Trade receivables	171,664	209,467
Impairment	(917)	(1,017)
	170,747	208,450
Notes receivable	232,175	234,539
	402,922	442,989

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of three months for major customers. Each customer has a credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to manage credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and notes receivables are non-interest-bearing.

11. TRADE AND NOTES RECEIVABLES (continued)

An aged analysis of the trade receivables and notes receivable as at the end of the reporting period, net of provisions, is as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables		
Outstanding balances with ages:		
Within 90 days	164,646	195,422
Between 91 and 180 days	3,056	12,528
Between 181 and 270 days	3,037	492
Between 271 and 360 days	-	-
Over one year	8	8
	170,747	208,450

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	1,017	4,161
Impairment losses recognised	-	2
Amount written off as uncollectible	-	(2,921)
Impairment losses reversed	(100)	(225)
At 31 December	917	1,017

The above provision for impairment of trade receivables is provided for individually impaired trade receivables with an aggregate carrying amount before provision of RMB917,000 (2011: RMB1,017,000). The individually impaired trade receivables relate to customers with financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	164,646	195,422
Less than three months past due	3,056	12,528
Over three months past due	3,045	500
	170,747	208,450

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

11. TRADE AND NOTES RECEIVABLES (continued)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Financial assets that are not derecognised in their entirety

At 31 December 2012, the Group endorsed certain notes receivable accepted by banks in the PRC (the "Endorsed Notes") with a carrying amount of RMB96,722,000 to certain of its suppliers in order to settle the trade payables due to such suppliers (the “Endorsement”). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Notes, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Notes and the associated trade payables settled. Subsequent to the endorsement, the Group does not retain any rights on the use of the Endorsed Notes, including sale, transfer or pledge of the Endorsed Notes to any other third parties. The aggregate carrying amount of the trade payables and other payables settled by the Endorsed Notes during the year to which the suppliers have recourse was RMB96,722,000 as at 31 December 2012.

Financial assets that are derecognised in their entirety

At 31 December 2012, the Group endorsed certain notes receivable accepted by banks in the PRC (the “Derecognised Notes”) to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB14,674,000. The Derecognised Notes have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Notes have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to the Derecognised Notes. Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade payables. The maximum exposures to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Notes are not significant.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

12. TRADE AND NOTES PAYABLES

An aged analysis of the trade payables and notes payable as at the end of the reporting period is as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Outstanding balances with ages:		
Within 90 days	246,730	72,695
Between 91 and 180 days	37,213	193,112
Between 181 and 270 days	801	2,596
Between 271 and 360 days	45	140
Over one year	530	669
	285,319	269,212

The trade payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the trade and notes payables approximate to their fair values. The aggregate carrying amount of the trade payables settled by the Endorsed Notes during the year to which the suppliers have recourse was RMB81,142,000 as at 31 December 2012.

CHAIRMAN'S STATEMENT

RESULTS

The Group has recorded revenue of approximately RMB856,539,000 for the year ended 31 December 2012 (2011:RMB1,081,044,000), representing a decrease of 20.8% as compared to 2011. Profit attributable to owners of the parent was approximately RMB114,506,000 (2011:RMB146,307,000) representing a decrease of 21.7% over 2011. The decrease in turnover and profit was mainly due to the decline in the Group's sales of cephalosporin intermediates, bulk medicines and powder for injection, in comparison to the corresponding period last year. The sales of solid-dosage-forms (mainly comprising system specific medicines) approximated to the corresponding period last year.

In April 2011, the Ministry of Health in China launched the rectification program for nation-wide clinical application of antibacterial medicines, followed by the planning and implementation of the graded administrative measures for antibacterial medicines, which caused the substantial nation-wide decrease in the use of antibacterial medicines. Among of them, the cephalosporin antibiotics were also considerable restricted regarding the clinical application by various levels of hospitals. The Group's production and sales of cephalosporin antibiotics intermediates, bulk medicines and powder for injection were affected to various extents, which led to the decline in the profit of the Company.

As for the system specific medicines, despite the increasingly keen competition in the market, the sales of various specific medicines of the Group were still in good conditions, with various pre-set goals achieved basically. In particular, the sales of "Leiyide" (「雷易得」) (Entecavir Dispersible Tablets) for treating hepatitis B and anti-hypertensive drug "Anneixi"(「安內喜」)(Losartan Potassium and Hydrochlorothiazide Tablets) attained better results than the pre-set goals of the Group.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$0.055 per share for the year ended 31 December 2012, amounting to the total sum of approximately HK$44,033,000 (equivalent to approximately RMB35,408,000), to the shareholders whose names appeared in the register of members as of Friday, 31 May 2013 subject to the approval of the shareholders at the forthcoming 2013 Annual General Meeting (the "2013 AGM"). Taking into consideration the interim dividend of HK$0.015 per share, the total annual dividend distributed for the year is HK$0.07per share. The dividend payout ratio is approximately 39.5%.

2012 OVERVIEW

In comparison to 2011, the three major economic systems in the U. S. A., Europe and Japan still confronted various types of difficulties in 2012. The economic recovery remained weary. In light of the volatile global market, coupled with the various reasons of internal economic regulation, the commercial environment was stagnant in China, with all trades under considerable operation pressure.

Based on the foundation of the medical reform implemented by the Central Government in the past, the policies and measures related to the pharmaceutical manufacturing sector were promulgated and implemented one after another in 2012. As directed by the government policies, the project of upgrading the overall pharmaceutical manufacturing industry to get in line with the advanced international level was launched in full swing, with the objective of building up a medicine supply system with the core emphasis on quality safety, highly efficient operation, fair use, reasonable commitment and sustainable development. Furthermore, under the various related national plans, scientific innovation will be the core development in the pharmaceutical manufacturing sector. The entry threshold and level of concentration for this sector will continue to be on the rise.

In terms of various sub-sectors of the pharmaceutical manufacturing industry, the operating environment of antibacterial medicines remained unstable. Affected by the extremely stringent policies and measures, the total sales volume and amount of chemical antibacterial medicines were on the decline due to the pressure of restricted use, which caused great impact on the pharmaceutical manufacturing enterprises specializing in the production and sales of antibacterial medicines. It is believed that the industry will be operated under normal conditions only after the participants in the various aspects of the market are completely adapted to the graded administrative measures for antibacterial medicines.

PROSPECTS

The medical reform measures of the Central Government and the contribution of related financial resources continue to support the development speed of the pharmaceutical manufacturing industry. The rapid economic development in China has led to nation-wide urbanization, the increase in the disposable income of residents, the change of living mode, and the aging population, have caused the residents to increase their consumption in medical treatment and medicine. This fundamental facet will continue to provide favorable conditions and development room for the pharmaceutical manufacturing enterprises in China to make profits.

Following the implementation of the new version of GMP, the government-oriented upgrading project for the pharmaceutical manufacturing industry is making in-depth progress. Apart from the specification requirements of the production equipment, the enterprise has to meet the various stringent requirements for various systems particularly the management of quality system, so as to make the production and operation level of Chinese medicines get in line with the advanced nations in the world. Therefore, the enterprise shall have the scientific innovative capabilities as well as the green production techniques and technical stronghold having mutually synergistic effects with the environment. Research, production and supply of premium, safe and reliable pharmaceutical products will definitely be the road to the on-going existence of the pharmaceutical manufacturing enterprises in China market. Hence, under the new market pattern, the pharmaceutical manufacturing enterprises shall keep on optimizing the allocation and use of financial resources, talent supply and new product development, in order to enhance its own operating efficiency and profit-making capabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2012, the growth rate of the entire pharmaceutical sector in China slowed down. The growth of industrial profits was slower than that of the output value. The obviously slowing profit growth and the cost remaining at high level were the main reasons bothering the entire sector. The chemical bulk medicine was the sub-sector with the worst profit growth, with unsatisfactory output value and profit. In particular, in the first half of 2012, the bulk medicine experienced negative growth with diminishing profits. The profit margin remained at low level. The growth rate in respect of the hospital terminal and the basic terminal was lower compared to 2011. The growth rate of consumption volume of antibiotics continued to slide for three consecutive years. The situation of pharmaceutical export was harsh. In general, the export prices were falling, coupled with decreasing volume. Under such circumstances, the Group concentrated on reinforcing the production and sales of specific medicine products. Its reasonable and orderly production arrangement has consolidated and expanded the market share in the system specific medicines. In terms of product research and development, by means of in-house and cooperative development, all-out efforts were made to obtain the varieties with great market potentials, high percentage of technological elements and substantial added value, in order to expand the product lines of the Company. Affected by the price reduction in China’s overall antibiotics market and part of cephalosporin preparation products, the sales volume and amount of cephalosporin intermediates and bulk medicines dropped obviously. Under the stringent cost control of the Company, the quality, brand name and technology of cephalosporin products were upgraded to maintain the profit contribution of the product series. During the year, one bulk medicine workshop has passed the new GMP Certification. Further reformation of other workshops are being made.

PRODUCTION AND SALES

In comparison to the corresponding period of last year, as at 31 December 2012, the Group’s production of bulk medicines and intermediates, decreased by 45.3%, and sales volume increased by 34.5%; the production and sales volume of the powder for injection decreased by 31.9% and 19.6% respectively; the production and sales volume of the solid-dosage-forms decreased by 25.2% and 10.1% respectively. As for the product extensively promoted by the Company, “Anneixi” (安内喜) (Losartan Potassium and Hydrochlorothiazide Tablets) the production and sales volume increased by 68.1% and 49.4% respectively; the production and sales volume of “Leiyide” (雷易得) (Entecavir Dispersible Tablets) increased by 152.5% and 120.9% respectively.

NEW PRODUCTS

In 2012, fifteen declarations for registration were filed to the State and/or Provincial Food and Drug Administration (including declaration of new medicine production for 2 items, declaration of new medicine clinical research for 2 items, declaration of generic production for 3 items, supplementary application for 6 items and re-registration for 2 items). Two new medicine production approval documents were obtained (Prulifloxacin bulk medicine and Prulifloxacin tablets). Nine supplementary approval documents were obtained. One re-registration was approved.

HONORS AWARDED IN 2012

1) In February 2012, the new technology of preparation method of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. was granted two authorizations for the invention patent.
2) In May 2012, Su Zhou Dawnrays Pharmaceutical Science and Technology Co., Ltd. passed the re-examination of ISO9001：2008 certification, ISO14001：2004 certification, OHSAS18001：2007 certification.
3) In July 2012, the anti-hyperlipidemic medicine – the research project of Rosuvastatin Calcium bulk medicine and tablets was granted the Suzhou Municipal Technology Development Plan (Technology Project).
4) In August 2012, Cefepime Hydrochloride for injection (Xiankang) and its bulk medicine were awarded by the Science and Technology Department of Jiangsu Province the recognized Jiangsu provincial new high-tech product.
5) In December 2012, the Science and Technology Department of Jiangsu Province recognized Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. as the new high-tech enterprise in Jiangsu Province.
6) In December 2012, Suzhou Dawnrays Pharmaceutical Co., Ltd. was recognized by the Science and Technology Department of Jiangsu Province as the Jiangsu (Dawnrays) Engineering Research Centre for Anti-hypertensive and Antibiotic Medicines (江蘇省（東瑞）抗高血壓及抗生素類藥物工程技術研究中心).
7) In December 2012, Ceftriaxone was granted the Nantong Municipal Science and Technology Progress Award by Nantong Municipal Government.

PROGRESS OF CONSTRUCTION PROJECT OF PRODUCTION FACILITIES

1) Phase I project of Suzhou Dawnrays Pharmaceutical Co., Ltd. in Hedong Industrial Park was completed basically, with phased validation under way.
2) The relevant workshop reformation adapted to the new version of GMP of Suzhou Dawnrays Pharmaceutical Co., Ltd. is under way properly.
3) The construction of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. Phase II Project is progressing properly.

OUTLOOK

Favourable factors also appeared in the pharmaceutical market environment in 2013. First, under the guidance of the "Twelfth Five-year Plan" for the pharmaceutical industry, the overall pharmaceutical sector is still under stable development in China. The economic growth and the protection brought about by the policy will promote the rapid growth of medicine consumption. Second, the extensive implementation of the essential medicine system was followed by the good news of further drop of medicine prices and the hopeful reform of the system for "nourishing the hospital with medicine income", which will further increase the population in medicine consumption, and lead to the persistent growth of the market demand. Third, on the whole, there is still rigid and positive demand for China's bulk medicines in the international market. It is unlikely to replace the position of antibiotics in the international market in the short term as they still have considerable advantage over price competition.

The next key work of the Group: I. Following the launch of the facilities in Hedong Industrial Park, the production capacity of solid-dosage-forms will be effectively increased, which is 4 to 5 times of the present capacity. Then, it is to expand the marketing team, further optimize the operation and management of the marketing network, enhance the overall competitiveness, perfect the channel construction for cardiovascular specific medicines and subsequent products to enable the stable progress of the promotion for the new products. II. It is to reinforce the project investigation and research and the screening of the products under research, prioritize the development of key products, expedite the research and development progress of new products, fulfill the technological improvement of existing products, upgrade the product quality, progressively pass the new version of GMP and effectively enhance the product competitiveness. III. The GMP reformation for relevant workshops is being expedited as well as the cost of labour and raw materials is on the rise, the comprehensive operating costs of the enterprise have increased, which may affect the benefits of the Company to a certain extent. Therefore, the Company will keep on enhancing cost control, optimizing business flow and pushing ahead with the persistent work of saving energy and reducing consumption, in order to alleviate the pressure arising from the rising cost to the operation of the enterprise.

FINANCIAL REVIEW

SALES AND GROSS PROFIT

For the year ended 31 December 2012, the Group has achieved the turnover of approximately RMB856,539,000, equivalent to a decrease of 20.8% compared with the corresponding period of last year. Gross profit was approximately RMB324,395,000, in a decrease of RMB38,357,000 and equivalent to a decrease of 10.6%. Gross profit margin rose from 33.6% in last year to 37.9%, increased by 4.3 percentage points. The main reason for the decrease in revenue by RMB224,505,000 was mainly due to the revenue of cephalosporin intermediates and bulk medicines segment decreased by RMB179,298,000. The increase in gross profit margin was mainly due to the product portfolio was further optimized and the sales of high gross profit system specific medicines continues steady growth, of which the sales amount of "Leiyide"(雷易得) increased by 77% compared with the corresponding period of last year.

Sales amount of finished drugs accounted for total turnover was approximately 55.9% which was increased by 7.4% compared with the corresponding period of last year. Sales amount of finished drugs was approximately RMB479,008,000, of which the sales amount of “An” series accounted for approximately 41.2% of sales of finished drugs, and the sales amount of “Leiyide”(雷易得) accounted for approximately 15.8％ of sales of finished drugs.

The main reason for the increase in gross profit margin was attributable to the sales of intermediates and bulk medicines, the low gross profit products, accounted for the total turnover further decreased from 51.5% to 44.1% which further optimized the product portfolio.

TABLE OF TURNOVER ANALYSIS

PRODUCT	**TURNOVER (RMB’000)**			**SALES BREAKDOWN (%)**		
	2012	2011	Changes	**2012**	2011	Changes
Intermediates and Bulk Medicines	**377,531**	556,829	-179,298	**44.1**	51.5	-7.4
Finished Drugs	**479,008**	524,215	-45,207	**55.9**	48.5	7.4
Overall	**856,539**	1,081,044	-224,505	**100.0**	100.0	0.0

EXPENSES

During the period, the total expenses incurred were approximately RMB194,128,000, equivalent to 22.7% of turnover (2011: 18.5%). The total expenses decreased by RMB6,038,000 compared with the corresponding period of last year which was RMB200,166,000.

SEGMENT PROFIT

For the year ended 31 December 2012, segment results of intermediates and bulk medicines segment recorded losses of RMB2,053,000. The profitability of this segment in the second half of 2012 improved gradually and had a month-on-month decrease of losses for approximately RMB10,973,000 compared with the segment results for the first half of 2012. The segment profit of finished drugs segment was RMB 221,946,000.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As at 31 December 2012, the profit attributable to the owners of the parent company was approximately RMB114,506,000, which was decreased by RMB31,801,000, representing a decrease of 21.7% compared with the corresponding period last year. The main reason for the drop of profit was that the stringent implementation of national policy – “Administrative Measures regarding Clinical Application of Antibacterial Medicines” – further decreased the sales volume of cephalosporin powder for injection of the Company, with the sales amount approximately 20.4% less than the corresponding period last year. For the entire year, the segment of cephalosporin intermediate and sterile bulk medicines still had slight losses.

ANALYSIS ON THE RETURN ON ASSETS

As at 31 December 2012, net assets attributable to the owners of the parent company was approximately RMB982,112,000, the return on net assets (defined as the profit attributable to the owners of the parent company for the year divided by net assets attributable to the owners of the parent company) was 11.7% (2011: 15.9%). The current ratio and the quick ratio were 1.64 and 1.31 respectively. Turnover days for trade receivables were approximately 80 days. Turnover days for trade and notes receivables were approximately 178 days. Turnover days for inventory were approximately 121 days.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group held cash and cash equivalents of approximately RMB155,694,000 (as at 31 December 2011: RMB97,805,000). During the year, the net cash flow from operating activities was approximately RMB203,624,000 (2011: RMB82,986,000). The net cash flow used in investing activities was approximately RMB109,329,000 (2011: RMB149,258,000). The net cash flow used in financing activities was approximately RMB34,804,000 (2011: RMB41,114,000).

As at 31 December 2012, the debt ratio (defined as interest-bearing bank loans over total assets) of the Group was 12.9% (as at 31 December 2011: 7.9%). As at 31 December 2012, the Group had a total of HK$15,144,000 mortgage loan and HK$235,750,000 short term bank loans, all of which were subject to the arrangement of floating interest rate. The loan interest rate ranged from HIBOR +1.5% to 2%. The time deposits of approximately RMB159,800,000 and intra-group notes receivables of approximately RMB54,500,000 were pledged to bank to secure captioned short term bank loans.

As at 31 December 2012, the balance inventory of the Group was RMB182,918,000 (as at 31 December 2011: RMB176,010,000).

As at 31 December 2012, the Group had aggregate bank facilities of approximated to RMB1,074,813,000 (as at 31 December 2011: RMB852,458,000), of which, the credit facilities of HK$109,750,000 were secured by corporate guarantee of the Company or its subsidiaries.

As at 31 December 2012, the capital commitments of the Group approximated to RMB153,050,000 (as at 31 December 2011: RMB199,160,000), which mainly derived from the construction of workshop for non-cephalosporin solid-dosage-forms preparation in Hedong Industrial Park, as well as the reform projects for the workshops of cephalosporin powder for injection, and cephalosporin bulk medicines for the new version of GMP in Suzhou Dawnrays Pharmaceutical Co., Ltd. The Group has had sufficient financial and internal resources to bear the capital expenditure.

In order to streamline the structure of the Group, Dawnrays Pharma (Hong Kong) Ltd. transferred its equity of its subsidiary Guangdong Dawnrays Pharmaceutical Co., Ltd. to Dawnrays International Co. Ltd. As at 31 December 2012, all the formalities for the change completed smoothly.

During the year, Dawnrays International Co., Ltd., an indirect wholly owned subsidiary of the Company, purchased a commercial property at a total consideration of HK$36,380,000 from an independent third party for office use and the Group’s head office relocation. The total consideration was settled from the Group’s internal capital and the bank mortgage loan.

During the year, save as aforesaid disclosure, the Group had no significant external investments or material acquisitions or disposal of subsidiaries and associated companies.

FOREIGN EXCHANGE AND TREASURY POLICY

As the substantial business activities, assets and liabilities of the Group are mainly settled in Renminbi, the risk derived from the foreign exchange to the Group is not high. The treasury policy of the Group is to manage any risk of foreign exchange or interest rate (if any) only if it will potentially impose a significant impact on the Group. The Group will continue to monitor its foreign exchange conditions, and may hedge against foreign currency risk with foreign exchange forward contracts and interest rate risk with interest rate swap contracts if necessary.

STAFF AND REMUNERATION POLICY

As at 31 December 2012, the Group had approximately 1,250 employees and the total remuneration was approximately RMB90,563,000 (2011: RMB100,635,000). The Group has regarded human resources as the most valuable assets and truly understood the importance of attracting and retaining competent personnel. The remuneration policy generally makes references to the market salary index and individual qualifications and experiences. The Group provides its employees with other fringe benefits, including the defined contribution retirement scheme, the share option scheme and the medical coverage. The Group also offers some of its employees stationed in China with dormitory accommodation.

CHARGE ON ASSETS

As at 31 December 2012, the assets at book value of approximately RMB189,427,000 were pledged to the banks by the Group to secure the bank facilities for its subsidiaries (as at 31 December 2011: RMB108,294,000).

CONTINGENT LIABILITIES

As at 31 December 2012, a subsidiary of the Group was officially served for two litigation cases of disputes over the balance payment for the construction project. The management of the said subsidiary made proactive defence against the above-mentioned two cases and appointed the legal consultant to provide opinion for the related litigation and lodge the counterclaim. At the present stage, as the court accepting the litigation case has not organized the third party auditing unit to proceed with the auditing of the final accounting for the completion of this project yet, it is unable to make reliable estimation with reasonable accuracy regarding the outcome of such litigation cases now.

Save as aforesaid disclosure, the Group had no material contingent liabilities (as at 31 December 2011: Nil).

PLANS FOR SIGNIFICANT INVESTMENTS AND EXPECTED SOURCE OF FUNDING

Save for those disclosed above in connection with capital commitments under the section "Liquidity and Financial Resources", the Group does not have any plan for material investments or acquisition of capital assets.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITES OF THE COMPANY

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (the "CG Code") (effective from 1 April 2012) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd. (the "Listing Rules") for the year ended 31 December 2012, except for the following deviations:

Code Provision A.6.7 of the CG Code- attendance of Non-executive Directors at general meetings
All Non-executive Directors (including Independent Non-executive Directors) attended the annual general meeting of the Company held on 18 May 2012 (the "AGM") other than one Independent Non-executive Director who was not in position to attend the AGM due to an overseas commitment.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of all Directors, the Company confirms that all the Directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the 2012 annual report.

AUDIT COMMITTEE

The audited financial statements of the Company for the year ended 31 December 2012 have been reviewed by the Audit Committee before recommending it to the Board for approval.

DIVIDEND AND CLOSURE OF REGISTER

The Board has resolved to recommend the payment of a final dividend of HK$0.055 per share payable to shareholders whose names appear in the Register of Members of the Company on Friday, 31 May 2013. The proposed final dividend of HK$0.055 per share, the payment of which is subject to approval of the shareholders at the 2013 AGM of the Company to be held on Friday, 24 May 2013, is to be payable on Tuesday, 11 June 2013 to shareholders.

The register of members of the Company will be closed during the following periods:

(i) from Wednesday, 22 May 2013 to Friday, 24 May 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2013 AGM. In order to be eligible to attend and vote at the 2013 AGM, all transfer of shares of the Company accompanied by the relevant share certificates and the appropriate share transfer forms must be lodged with the Company's Registrars in Hong Kong, Tricor Abacus Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 21 May 2013;

(ii) from Thursday, 30 May 2013 to Friday, 31 May 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer of shares of the Company accompanied by the relevant share certificates and the appropriate share transfer forms must be lodged with the Company's Registrars in Hong Kong, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 29 May 2013.

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

APPRECIATION

The Group fully understands the future development foundation, trend and requirements of China pharmaceutical market. The Company management team will continue to develop its various businesses featuring sound and pragmatic operating style, subject to the increasingly stringent industry surveillance for pharmaceutical production in China and overseas, so as to seek reasonable returns for our shareholders.

I would like to take this opportunity to express my heart-felt gratitude for the all-out efforts in coordination and support from our shareholders, business partners, directors, all management personnel and staff for my work in the previous year.

By Order of the Board
Li Kei Ling
Chairman

Hong Kong, 22 March 2013

As at the date of this announcement, the Board comprises eight Directors, of which four are Executive Directors, namely Ms. Li Kei Ling, Mr. Hung Yung Lai, Mr. Li Tung Ming and Mr. Gao Yi; one is Non-executive Director, Mr. Leung Hong Man; three are Independent Non-executive Directors, namely Mr. Pan Xue Tian, Mr. Choi Tat Ying Jacky and Mr. Lo Tung Sing Tony.